

Message Text

UNCLASSIFIED

PAGE 01 STATE 047473
ORIGIN AGRE-00

INFO OCT-01 EUR-12 IO-13 ISO-00 CEA-01 CIAE-00 COME-00
DODE-00 EB-08 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04
NSAE-00 NSC-05 PA-02 AID-05 SS-15 STR-04 ITC-01
TRSE-00 USIA-15 PRS-01 SP-02 FEAE-00 OMB-01 AF-08
ARA-10 EA-09 NEA-10 /145 R

DRAFTED BY USDA:FAS:MRSHARPLESS:JVM
APPROVED BY EB/OT/TA:DJDUNFORD
USDA:GSINDELAR
USDA:GFRASER
COMMERCE:DSCHLECTY
LABOR:DWANAMAKER
TR SURY:WBARREDA
EB/OT/TA:TFO'HERRON
EUR/RPE:PMCLEAN
STR:JSTARKEY

-----041507Z 019462 /44

R 032047Z MAR 77
FM SECSTATE WASHDC
TO USMISSION EC BRUSSELS
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE
USMISSION OECD PARIS
USMISSION GENEVA
USDEL MTN GENEVA

UNCLAS STATE 047473

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 STATE 047473

E.O. 11652: N/A

TAGS: ETRD, EAGR, GATT, EEC

SUBJECT: EC SUBSIDIES ON HOPS

1. U.S. HOP INDUSTRY HAS REGISTERED COMPLAINT WITH

USDA ALLEGING UNFAIR TRADE PRACTICES BY EC THROUGH ITS HOP SUBSIDY PROGRAM. USG HAS BEEN REQUESTED TO PROTEST PRESENT TREND IN EC HOP SUBSIDIES WITH AIM OF SEEKING ELIMINATION OF OR SUBSTANTIAL REDUCTION IN CURRENT SUBSIDIES. INDUSTRY HAS ALSO INDICATED ITS INTENTION TO FILE FORMAL 301 PETITION WITH STR IF NO MEANINGFUL REMEDIAL ACTION IS FORTHCOMING FROM EC WITHIN REASONABLE TIME.

2. DURING US/EC CONSULTATIONS LAST OCTOBER, WE INFORMED EC COMMISSION OFFICIALS OF INDUSTRY'S COMPLAINT AND OF OUR DESIRE TO DISCUSS ISSUE. WE EXPRESSED CONCERN THAT PRODUCER SUBSIDIES WERE APPARENTLY SENT TO COOPERATIVES WITHOUT ANY CONTROLS, ENABLING CO-OPS TO RETAIN AND USE THE SUBSIDIES FOR FINANCING EXPORTS. WE NOTED IN PARTICULAR REPORTS THAT A GERMAN PRODUCER ORGANIZATION HAD SOLD HOPS AT DISTRESSED PRICES, WELL BELOW ACQUISITION COST. COMMISSION SPOKESMAN RABOT CLAIMED HE WAS UNAWARE OF ANY TRADE PROBLEMS GENERATED BY HOP SUBSIDY PROGRAM, AND HE AGREED TO LOOK INTO MATTER AND TO DISCUSS IT WITH US AT

LATER DATE. HOWEVER, WE HAVE HAD NO FURTHER WORD FROM COMMISSION.

3. FOLLOWING IS BEST AVAILABLE INFORMATION WE HAVE. MISSION IS REQUESTED TO APPROACH APPROPRIATE EC COMMISSION OFFICIALS TO SEEK CLARIFICATION ON WORKING OF EC SUBSIDY PROGRAM AND TO REGISTER AGAIN U.S. CONCERN REGARDING EC HOP SUBSIDY PROGRAM. OUR AIM IS TO SEEK RESTRAINT
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 STATE 047473

IN LEVEL OF SUBSIDIZATION AND TO END ANY USE OF SUBSIDY FUNDS TO PROMOTE EXPORTS, IF THAT IS OCCURRING. EMPHASIS SHOULD BE ON WORLD HOP SURPLUS SITUATION, CAUSED IN PART BY EC PRODUCTION SUBSIDIES; SALE OF HOPS BY PRODUCER ORGANIZATIONS AT DISTRESSED PRICES; AND LOSSES SUFFERED BY U.S. HOP INDUSTRY DOMESTICALLY AND IN INTERNATIONAL TRADE.

4. EC SUBSIDIES HAVE AFFECTED U.S. EXPORTS OF HOPS AND HOP EXTRACT TO EC SINCE INITIATION OF PROGRAM IN 1971. IN 1972 U.S. EXPORTS OF HOPS AND HOP EXTRACT TO EC AMOUNTED TO 9 MILLION DOLLARS AND IMPORTS FROM EC TOTALED ABOUT 9 MILLION DOLLARS. BY 1975 VALUE OF U.S. EXPORTS TO EC HAD DROPPED TO ABOUT 2 MILLION DOLLARS WHILE IMPORTS FROM EC HAD INCREASED TO 10 MILLION DOLLARS. DURING THE SAME PERIOD, U.S. EXPORTS OF HOPS AND HOP EXTRACT TO REST OF WORLD INCREASED FROM 21 MILLION DOLLARS TO ABOUT 25 MILLION DOLLARS.

5. WORLD HOP OUTPUT BEGAN GRADUAL INCREASE IN 1969. IN 1973 THERE WAS RECORD CROP AND WORLD SURPLUS. SURPLUS CAN BE ATTRIBUTED TO WORLDWIDE FAILURE OF BREWERIES DEMAND TO KEEP PACE WITH GROWING SUPPLIES, WHICH STEMMED FROM A SHARP INCREASE IN HOP ACREAGE FROM 1969 TO 1973; GROWING USE OF HOP POWDERS AND EXTRACTS, WHICH REDUCE QUANTITY OF HOPS REQUIRED IN BEER PRODUCTION; AND INCREASE IN PRODUCTION OF HOPS HIGH IN ALPHA ACID, WHICH FURTHER INCREASED SUPPLIES IN TERMS OF BITTER CONTENT. SUBSTANTIAL INCREASE IN EC ACREAGE AND PRODUCTION, STIMULATED BY SUBSIDIES PAID TO EC PRODUCERS, CONTRIBUTED GREATLY TO THIS WORLD SURPLUS.

6. WORLD HOP PRODUCTION INCREASED BY 30 PERCENT FROM 1969 TO 1973, FROM 92.4 THOUSAND METRIC TONS TO 120.1 THOUSAND TONS. BY 1975, PRODUCTION LEVEL HAD DROPPED TO 109.0 THOUSAND TONS, BUT WAS STILL 18 PERCENT HIGHER UNCLASSIFIED

UNCLASSIFIED

PAGE 04 STATE 047473

THAN THE 1969 LEVEL.

7. SINCE 1973 MOST OF WORLD'S MAJOR HOP PRODUCING COUNTRIES HAVE BECOME KEENLY AWARE OF OVERPRODUCTION PROBLEMS IN HOPS SECTOR AND ARE BEGINNING TO REDUCE LEVELS OF PRODUCTION. FROM 1969 TO 1973 WORLD HOP ACREAGE INCREASED BY 17 PERCENT, FROM 67,179 HECTARES TO 78,329 HECTARES. WEST GERMANY, WORLD'S LARGEST HOP PRODUCER, INCREASED ACREAGE BY 70 PERCENT FROM 11,772 HECTARES TO 20,039 HECTARES WHILE U.S. ACREAGE INCREASED BY ONLY 16 PERCENT.

8. IT APPEARS THAT EC HAS ACKNOWLEDGED SURPLUS PROBLEMS IN HOPS SECTOR AS EVIDENCED BY PROPOSED DRAFT AMENDMENTS TO HOPS CAP. MAIN FEATURES OF HOPS CAP (REGULATION NO. 1969/71) ARE PRODUCER SUBSIDY PROGRAM, (AUTHORIZING PAYMENT OF INCOME AND STRUCTURAL AIDS), MINIMUM QUALITY STANDARDS APPLICABLE TO HOPS AND HOPS PRODUCTS MARKETED IN OR IMPORTED INTO EC (NOT YET IMPLEMENTED), AND AIDS TO PRODUCER GROUPS. PROPOSED DRAFT AMENDMENTS ARE AIMED AT ESTABLISHMENT OF CERTIFICATE SYSTEM BASED ON MINIMUM QUALITY STANDARDS; GRANTING OF PRODUCER SUBSIDIES BASED ON AREAS IN PRODUCTION FOR THREE YEARS, AND SUBSIDIES FOR THREE DIFFERENT GROUPS OF HOP VARIETIES -- AROMATIC, BITTER, AND OTHER HOPS. SUBSIDIES WOULD BE GRANTED TO PRODUCER GROUPS, WHICH IN TURN WOULD DISTRIBUTE THEM TO THEIR MEMBERS. AMENDMENTS ALSO PROVIDE INCREASED ENCOURAGEMENT FOR ESTABLISHMENT OF PRODUCER GROUPS AND ENCOURAGEMENT OF EXTENSION OF SUBSIDIES FOR VARIETAL RECONVERSION, BUT ONLY ON CONDITION THAT HOPS AREAS BE REDUCED.

9. EC PRODUCERS HAVE BEEN GRANTED INCOME AND STRUCTURAL AIDS UNDER HOPS CAP SINCE 1971 CROP YEAR. SUBSIDIES APPARENTLY HAVE NOT ONLY CUSHIONED EC PRODUCERS FROM DOWNWARD PRICE FLUCTUATIONS BUT IN AT LEAST ONE CASE HAVE

UNCLASSIFIED

PAGE 05 STATE 047473

ALLOWED PRODUCER GROUPS TO SELL HOPS IN WORLD MARKET AT DISTRESSED PRICES, WELL BELOW ACQUISITION COSTS.

10. BETWEEN 1971 AND 1974, INCOME SUBSIDIES GRANTED TO EC PRODUCERS RANGED FROM 100 UA/HECTARE (50 DOLLARS PER ACRE) TO AS HIGH AS 750 UA/HECTARE (380 DOLLARS PER ACRE), DEPENDING UPON HOP VARIETY. FOR 1971 CROP YEAR EC GRANTED SUBSIDIES ON 10 DIFFERENT VARIETIES OF HOPS AT AVERAGE OF 311 (320 DOLLARS) UA/HECTARE. DURING RECORD CROP YEAR OF 1973, EC GRANTED SUBSIDIES ON 18 VARIETIES AT AVERAGE OF 381 (472 DOLLARS) UA/HECTARE AND IN 1974 SUBSIDIES WERE GRANTED ON 19 VARIETIES AT AVERAGE OF 432 (540 DOLLARS) UA/HECTARE. THIS CONTINUED INCREASE IN SUBSIDIES CLEARLY WAS INCENTIVE TO PRODUCERS TO INCREASE ACREAGE OF VARIOUS VARIETIES.

11. STRUCTURAL AIDS WERE GRANTED TO PRODUCERS (AMOUNTING TO 1,500 UA (1,875 DOLLARS) PER HECTARE (759 DOLLARS PER ACRE) UP UNTIL DECEMBER 31, 1975, PRIMARILY TO ALLOW PRODUCERS TO CHANGE VARIETIES. DRAFT PROPOSAL RECOMMENDS THAT STRUCTURAL AIDS BE INCREASED TO 1,800 UA PER HECTARE FOR NEXT TWO YEARS. MANY GROWERS WERE ENCOURAGED TO CONVERT LOWER YIELDING AROMA VARIETIES TO MORE RESISTENT HIGHER YIELDING ALPHA VARIETIES AT MUCH FASTER PACE THAN WOULD HAVE BEEN CASE WITHOUT SUBSIDIES. RAPID CONVERSION TO HIGHER YIELDING ALPHA VARIETIES MEANS PRODUCTION WILL ALSO INCREASE, EVEN THOUGH ACREAGE MAY REMAIN STABLE. FOR EXAMPLE, ONE ACRE OF AROMA HOPS YIELDING 1,200 POUNDS OF 5 PERCENT ALPHA (60 POUNDS OF ALPHA ACID) REPLACED BY ONE ACRE YIELDING 1,800 POUNDS OF 10 PERCENT ALPHA (180 POUNDS OF ALPHA ACIDS) REPRESENTS PRODUCTION INCREASE OF 300 PERCENT ON SAME ACREAGE.

12. IT HAS BEEN REPORTED THAT EC SOLD HOPS DURING EARLY 1976 AT DEPRESSED PRICES, MUCH LOWER THAN ACQUISITION

UNCLASSIFIED

PAGE 06 STATE 047473

COST. ACCORDING TO U.S. INDUSTRY SOURCES, WEST GERMAN

PRODUCER GROUP HALLERTAU, SOLD HOPS TO SOVIET UNION AT PRICES LESS THAN HALF OF ACQUISITION COST. WEST GERMAN PRODUCERS WERE PAID FROM 77 TO 91 CENTS PER POUND FOR HOPS AND THEY WERE SOLD TO THE SOVIET UNION AT 35 CENTS PER POUND. AS RESULT, MARKET FOR 1975 SPOT HOPS IN U.S. DROPPED FROM ABOUT 50 CENTS TO 30-35 CENTS PER POUND IN ORDER TO ENABLE U.S. PRODUCERS TO COMPETE WITH EC SALES TO SOVIET UNION. U.S. HOP INDUSTRY WAS OBLIGED TO PLOW UNDER ABOUT 1,200 ACRES OF HOPS DURING 1976.

13. EC PRODUCER GROUPS ARE RESPONSIBLE FOR DISTRIBUTION OF SUBSIDY FUNDS, AND THEY HAVE BEEN ABLE TO USE THESE FUNDS FOR PURPOSES OTHER THAN HOP ACREAGE EXPANSION. WE SUSPECT THAT EC PRODUCER GROUPS WERE ABLE TO SELL HOPS AT DISTRESSED PRICES BECAUSE SUBSIDY FUNDS WERE USED TO PROMOTE HOP EXPORTS. MISSION SHOULD ATTEMPT TO ASCERTAIN IF PRODUCER SUBSIDIES HAVE BEEN USED TO PROMOTE EXPORTS OF HOPS, AND WHAT STEPS, IF ANY, EC HAS TAKEN OR WILL TAKE TO ENSURE THAT PRODUCTION SUBSIDY FUNDS ARE NOT USED TO DISPOSE OF HOPS IN EXPORT MARKETS.

VANCE

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE COMPLAINTS, ALLEGATIONS, EXPORT SUBSIDIES, HOPS
Control Number: n/a
Copy: SINGLE
Sent Date: 03-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE047473
Document Source: CORE
Document Unique ID: 00
Drafter: FAS:MRSHARPLESS:JVM
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770075-0498
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770395/aaaadglf.tel
Line Count: 246
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: abfe37be-c288-dd11-92da-001cc4696bcc
Office: ORIGIN AGRE
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 17-Sep-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3215971
Secure: OPEN
Status: NATIVE
Subject: EC SUBSIDIES ON HOPS
TAGS: ETRD, EAGR, EPAP, US, GATT, EEC, AGR
To: EC BRUSSELS
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/abfe37be-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009